

GENERAL COUNSEL'S REPORT

November 18, 2015

- B. Southern Sports Surgery Center d/b/a Indian Lake Surgery Center CN1204-019AM
CN1204-019AM authorizes Southern Sports Surgery Center to relocate an approved but unimplemented CON for the establishment of an ASTC from 1163 Nashville Pike, Gallatin (Sumner Co.) to 127 Saundersville Road, Suite A, Hendersonville (Sumner Co.). It also expands the designated use of the ASTC to multi-specialty services. The approved project cost is \$3,355,533.00. The expiration date was extended to May 30, 2015 by operation of law, due to the length of the contested case appeal filed by Hendersonville Medical Center; which appeal was voluntarily dismissed.

This project was approved by a 7-3 vote by the Agency on September 26, 2012. Dr. Haik moved for approval, and Mr. Wright seconded. Jordan, Wright, Doolittle, Weaver, Haik, Byrd and Johnson voted aye; and Mills, Burns and Gaither voted nay.

On 8/28/13, the HSDA unanimously approved a change of ownership/control. Drs. Gautsch and Grutter (50% owners, each, at time CON was issued) wanted to sell 38% to SurgCenter Development.

Seeks the following Modifications:

1. Cost increase from \$3,355,533 to \$3,869,549; and
2. Increase in square footage from 6,200 to 7,200.

Please see the attached letter for additional information.

Thomas L. Gautsch, M.D.
Southern Sports Surgical, LLC
127 Saundersville Rd
Hendersonville, TN 37075

via Electronic Mail and Hand Delivery

Ms. Melanie M. Hill
Executive Director
Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

Re: Certificate of Need CN1204-019A
Southern Sports Surgery Center d/b/a Indian Lake Surgery Center

October 30, 2015

Dear Ms. Hill,

Southern Sports Surgery Center d/b/a Indian Lake Surgery (Center Certificate of Need CN1204-019A) respectfully requests a modification to its issued CON to reflect an increased cost from \$3,355,533 to \$3,869,549, and square footage to 7,200, associated with the addition of four (4) additional bathrooms and widening of hallways and other support spaces, to meet codes and create a safer and more functional space. The ASTC project is otherwise completed as Certified, with 2 ORs and 1 procedure room; is open, State licensed, Joint Commission and Medicare certified, utilized by a number of area surgeons, and growing. As the only ASTC in Hendersonville, it has been well received by the community.

Justification:

As can be seen on the attached Final Project Report, the total project came in under budget for all estimated line items except Construction Costs and Moveable Equipment. (Contingency was with an unused LOC, debt reserve is listed as actual interim financing cost.)

After issuance of the CON, additional surgeons joined the project, including a spine surgeon, and additional equipment was added. Per codes and architect recommendation, we also added 4 bathrooms, 1 for staff and 3 for patients, and modestly expanded support spaces to accommodate bigger surgeries, including spine and outpatient total joint replacements, with anticipated longer recoveries than average. These improvements would have increased total lease costs under the terms of our original lease.

Fortunately, our build came at a time of low interest rates and we were offered very low rate financing, so the membership determined it was better in the long run for the ASTC to take on the total cost of interior build-out and negotiate a significant reduction in its lease -- from \$34 to \$25/sqft. We also received initial rent abatement. This helps the center financially in the long run. But, for the purposes of this report, it moves costs that would have been borne in lease payments after the 10-year calculation, into construction costs that appear in the 10-year Project Cost calculation.

Our Projected 10-year lease cost was \$2,416,586. With improvements under the initial terms, it would have been \$2,845,335. However, with our re-structuring of the lease, the actual will be just \$1,585,443. Construction was \$1,468,210. Even with improvements, the accumulated savings from the change will negate the upfront construction costs at 12 years. Thereafter the center will save an additional \$340,000 by 15 years, and will have saved \$975,000 in lease by 20 years.

Despite the overall savings to the project at 15 and 20 years, the Project Cost calculation at 10 years, with the ASTC paying the full TI build-out costs, is \$512,862 over the Estimated Project Cost calculation. Consequently, an additional fee was due to the HSDA of \$1,154. A check for that amount was submitted with submission of the Final Project Report.

Sincerely yours,



Thomas L. Gautsch, M.D.

cc:

Brandon Riggan, MD
Brent Nason, MD
Brett Branson, MD
Chad Swan, MD
Charles Lea
Clyde Southwell, MD
Don Russo, MD
Duane Harrison, MD
Jeffrey Jones, MD
Jill Steier, MD
Kelli Fischer
Ken Wilbur
Kenneth Lanyon, MD
Nell Nestor, MD
Patrick Meacham, MD
Randy Howard, MD
Regina Berlett, CEO Hendersonville Medical Center
Stanley Embree, DPM
Stephen Dickerson, MD
Tamie Babb, MD
Tom Taylor, MD
Tracy Callister, MD
Webb Earthman, MD
William Davis, MD
William Norris, MD

**State of Tennessee****Health Services and Development Agency**

Andrew Jackson Building, 9th Floor, 502 Deaderick Street, Nashville, TN 37243

www.tn.gov/hsda

Phone: 615-741-2364

Fax: 615-741-9884

FINAL PROJECT REPORT

Please TYPE or PRINT legibly.

Certificate of Need No. CN1204-019AProject Name: Southern Sports Surgery Center d/b/a Indian Lake Surgery CenterOwner: Southern Sports Surgical, LLC Contact: Thomas L. Gautsch, MDDescription: Ambulatory Surgical Treatment Center (ASTC) consisting of two (2) operating rooms and one (1) procedure room, pre/post holding area and support space.Total Bed Complement Before Addition
Total Bed ComplementN/AN/A

What was the Final Completion Date (opened for public use)?

August 25, 2014

Was the project completed as certified?

☒ YES☐ NO

(If not, describe any changes, deletions, and/or additions on additional sheets.)

Original		Final		
COST FACTORS			Cost Projection	Project Cost
A. Construction and equipment acquired by purchase:				
1	Architectural and Engineering Fees		\$ 91,000	\$ 82,500
2	Legal, Administrative (Excluding CON Filing Fee), Consultant Fees		\$ 60,000	\$ 15,000
3	Acquisition of Site		\$ -	\$ -
4	Preparation of Site		\$ -	\$ -
5	Construction Costs		\$ -	\$ 1,468,210
6	Contingency Fund		\$ 100,000	
7	Fixed Equipment (Not included in Construction Contract)		\$ 318,000	\$ 184,881
8	Moveable Equipment (List all equipment over \$50,000)		\$ 202,000	\$ 472,181
	<i>C-arm - OEC 9800 Super C (refurb) + printer & medicapture (\$73,500)</i>			
9	Other (Specify): <i>Initial supply stock</i>		\$ 50,414	\$ 17,441
	Subtotal		\$ 821,414	\$ 2,240,214
B. Acquisition by gift, donation, or lease:				
1	Facility (inclusive of building and land) <i>[10 year lease]</i>		\$ 2,416,586	\$ 1,585,443
2	Building only			
3	Land only			
4	Equipment (Specify) _____			
5	Other (Specify) _____			
	Subtotal		\$ 2,416,586	\$ 1,585,443
C. Financing Costs and Fees:				
1	Interim Financing			\$ 35,206
2	Underwriting Costs			
3	Reserve for One Year's Debt Service		\$ 110,000	\$ -
4	Other (Specify) _____			
	Subtotal		\$ 110,000	\$ 35,206

D.	Estimated Project Cost (A+B+C)	\$ 3,348,000	\$ 3,860,862
E.	CON Filing Fee	\$ 7,533	\$ 8,687
F.	<u>Total Estimated Project Cost (D+E)</u>	<u>\$ 3,355,533</u>	<u>\$ 3,869,549</u>

FINAL COST† \$ \$3,869,549

FINAL FILING FEE‡ \$ \$1,154

If the final project cost is an overrun of the estimated project cost, describe in detail all increases in final costs from those originally projected.

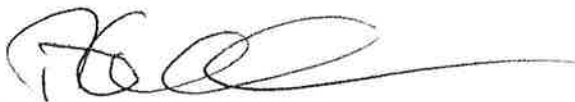
The total project came in under budget for all estimated line items except Construction Costs and Moveable Equipment. (Contingency was with an unused LOC, debt reserve is listed as actual interim financing cost.) After issuance of the CON, additional surgeons joined the project, including a spine surgeon, and additional equipment was added. Per codes and architect recommendation, we also added 4 bathrooms (from 3 to 7) and expanded support spaces modestly to accommodate bigger surgeries, including spine and outpatient total joint replacements. This would have increased total lease costs. We were offered very low rate financing, so the membership determined it was better instead for the ASTC to take on the total cost of interior build-out and negotiate a significant reduction in its lease -- from \$34 to \$25/sqft, plus initial rent abatement.

Projected 10 year lease cost was \$2,416,586. With additions under the initial terms, it would have been \$2,845,335. However, actual will be just \$1,585,443. Construction was \$1,468,210. Accumulated savings will negate upfront construction costs by 12 years. The center will save an additional \$340,000 by 15 years, and will have saved \$975,000 in lease by 20 years. However, at 10 years the Project Cost is \$512,862 over the Estimated Project Cost, with an additional fee due of \$1,154.

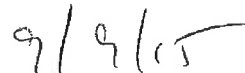
The Final Filing Fee to be assessed on any cost overrun is to be computed at the rate current at the time the project was certified. Below is the outline of the rates from January 1994 through the present.

PERIOD	FEE PER \$1,000	MAXIMUM-MINIMUM	FINAL FILING FEE
January 30, 1994 through Present	\$2.25/\$1,000	\$3,000--\$45,000	\$2.25/\$1,000 Total filing fee (initial plus final) not to exceed \$45,000.

I hereby certify that this information is true to the best of my knowledge, information, and belief, and that supplemental written notification will be filed with the Tennessee Health Services and Development Agency in the event of any change in the information given in this report.



Chief Operating Officer



Date

HF-0055

Revised 1/05 - All forms prior to this date are obsolete.



STATE OF TENNESSEE
HEALTH SERVICES AND DEVELOPMENT AGENCY

500 Deaderick Street
Suite 850
Nashville, Tennessee 37243
741-2364

October 24, 2012

Thomas Gautsch, M.D.
Southern Sports Medicine Institute
570 Hartsville Pike
Gallatin, TN 37066

RE: Southern Sports Surgery Center - CN1204-019A

Dear Dr. Gautsch:

As referenced in our recent letter, please find enclosed your Certificate of Need for the above-referenced application that was approved at the September 26, 2012, meeting of the Tennessee Health Services and Development Agency.

The Health Services and Development Agency Rules require that an Annual Progress Report be submitted each year and a Final Project Report form is to be submitted within ninety (90) days after completion of a project which shall include completion date, final costs, and other relevant information in regards to the project, pursuant to Public Acts 2002, Chapter No. 780, § 16-11-1609(d). Also required is the registration of certain medical equipment pursuant to Tennessee Code Annotated § 68-11-1607(i), which states "The owners of the following types of equipment shall register such equipment with the health services and development agency: computerized axial tomographers, lithotripters, magnetic resonance imagers, linear accelerators and positron emission tomography." "The survey shall include but not limited to the identification of the equipment and utilization data according to source of payment."

The aforementioned forms can be found on the Agency's website at www.tennessee.gov/HSDA. Should you have any questions or require further information regarding this Certificate, please do not hesitate to contact this office.

Sincerely,

Melanie M. Hill
Executive Director

MMH/MAB

cc: Teresa Hendricks, Division of Health Statistics, Office of Policy, Planning & Assessment
Ann R. Reed, Health Care Facilities - Licensure
Bill Harmon, Director of Engineering, Health Care Facilities

STATE OF TENNESSEE
Health Services and Development Agency



Certificate of Need No. **CN1204-019A** is hereby granted under the provisions of T.C.A. § 68-11-1601, *et seq.*, and rules and regulations issued thereunder by this Agency.

To: Southern Sports Surgical, LLC
570 Hartsville Pike
Gallatin, TN 37066

For: Southern Sports Surgery Center

This Certificate is issued for: Relocation of an approved but unimplemented certificate of need for the establishment of an ambulatory surgical treatment center (ASTC) and expansion of the designated use of its previously approved single-specialty ASTC (CN1104-013A) to multi-specialty services. The proposed project will relocate from 1163 Nashville Pike, Gallatin (Sumner County), TN 37066. The center will contain approximately 6,200 square feet of space including two (2) operating rooms, one (1) procedure room, pre/post holding area and support space.

CONDITION: Limited to a multi-specialty ASTC with two (2) operating rooms, and one (1) procedure room. Certificate of Need CN1104-013A is to be surrendered.

On the premises located at: Lot 38 - Indian Lake Village
127 Saundersville Road, Suite A
Hendersonville (Sumner County), TN 37075

For an estimated project cost of: \$3,355,533.00

The Expiration Date for this Certificate of Need is

November 1, 2014

or upon completion of the action for which the Certificate of Need was granted, whichever occurs first. After the expiration date, this Certificate of Need is null and void.

Date Approved: September 26, 2012


Chairman

Date Issued: October 24, 2012


Executive Director